

Taylor IV, William - BALTO

From: Sutherland, Kathy L. - BALTO on behalf of Smith, Jay - BALTO
Sent: Friday, November 09, 2001 4:34 PM
To: 'g_horowitz@stblaw.com'; 'robert.kelly@wellpoint.com'; 'thomas.geiser@wellpoint.com'
Cc: Taylor IV, William - BALTO; 'david.wolf@carefirst.com'; 'john.picciotto@carefirst.com';
'stuart.smith@csfb.com'
Subject: FROM JAY SMITH -- Please see attached documents



Memo.DOC



Analysis.XLS



MEMORANDUM

To: Gary Horowitz
Robert Kelly
Thomas C. Geiser
cc: David D. Wolf
John A. Picciotto
Stuart F. Smith
William Taylor, IV
From: R. W. Smith, Jr.
Date: November 9, 2001
Subject: Transferability of Note - Dollar Limit

In our conference call yesterday, you proposed that the subordinated note would be made transferable in increments of \$50 million subject to the other conditions that you described. We wanted to respond a bit with respect to the \$50 million suggestion.

Attached is a calculation which was done by CSFB which shows the amount of notes that would be delivered at different share prices between \$70 and \$50. As you will see, the amount of the notes would be about \$60 million at the \$65 price and \$120 million at the \$60 price. If the price fell all the way to the \$50 walk-away price, the amount of notes would be about \$240 million.

The allocation of the notes between the three shareholders is not certain at this time, but a very rough estimate would be a 60/30/10 split. Given this, it would seem that a \$50 million denomination would be a bit high in relation to the aggregate amount of the notes. In fact, it seems most likely that only one holder would have a \$50 million piece.

Accordingly, we would suggest that you consider a lower dollar amount. Our proposal would be to allow any transfers in an amount equal to the lesser of \$25 million or the actual dollar amount of a noteholder's entire position. Your other requirements would be included.

Let us know whether you think this is workable.

RWS/kl
Enclosure

OCC 009587

PROJECT CHESAPEAKE

Analysis of Pacific Subordinated Notes

(dollars in millions, except per share data)

Pacific Stock Price	Stock Consideration	Sub Notes Consideration
\$70.00	\$850.0	\$0.0
69.00	837.9	12.1
68.00	825.7	24.3
67.00	813.6	36.4
66.00	801.4	48.6
65.00	789.3	60.7
64.00	777.1	72.9
63.00	765.0	85.0
62.00	752.9	97.1
61.00	740.7	109.3
60.00	728.6	121.4
59.00	716.4	133.6
58.00	704.3	145.7
57.00	692.1	157.9
56.00	680.0	170.0
55.00	667.9	182.1
54.00	655.7	194.3
53.00	643.6	206.4
52.00	631.4	218.6
51.00	619.3	230.7
50.00	607.1	242.9

\$850.0 12.1429